

Message Text

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S E C R E T TEHRAN 6326

EXDIS

E.O. 11652: GDS

TAGS: ENRG, SA, IR

SUBJ: SHAH'S INTERVIEW WITH EXXON CHAIRMAN JAMIESON

REF: TEHRAN 6142

1. EXXON CHAIRMAN JAMIESON BRIEFED ECONOMIC COUNSELOR ON RESULTS HIS AND BP VICE CHAIRMAN STEEL'S CONVERSATION WITH THE SHAH ON JULY 29 AT RAMSAR. BESIDES JAMIESON AND STEEL, INTERIOR MINISTER AMOUZEGAR AND NIOC DIRECTOR FALLAH TOOK PART. DISCUSSION COVERED ITEMS OTHER THAN OIL, BUT THE MAJOR EMPHASIS WAS ON OIL PRICES AND THE WORLD ECONOMIC SITUATION RESULTING THEREFROM. JAMIESON PLANS INFORM WASHINGTON OF FULL DISCUSSION ON THURSDAY, AUGUST 1. THIS MESSAGE THEREFORE COVERS ONLY SALIENT POINTS ON OIL.

2. SINGLE PRICE FOR OIL. THE SHAH HAS NOW COME TO RECOGNIZE THAT THE MULTIPLICITY OF PRICING ARRANGEMENTS CREATES CONFUSION AND CONTENTION AND HE IS NOW WILLING TO TAKE THE LEAD IN PUSHING FOR A SINGLE PRICE FOR OIL WITHIN THE OPEC CONTEXT. ACCORDING TO JAMIESON THE SHAH APPEARED TO BELIEVE THE PRICE SHOULD BE IN THE NEIGHBORHOOD OF \$9.50 A BARREL REFLECTING AN AVERAGE OF EQUITY, BUY-BACK AND OTHER DIFFERENCES. THERE WOULD BE DIFFERENTIALS FOR LOCATION AND QUALITY AS UNDER THE PRESENT SYSTEM. THE SHAH AT THE
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OUTSET DID NOT APPARENTLY RECOGNIZE ANY NEED FOR PREFERENTIAL

ARRANGEMENTS FOR FORMER EQUITY PARTNERS AS EXXON AND BP IN THE FORM OF A PREFERRED PRICING AND AVAILABILITY POSITION BUT MINISTER OF INTERIOR AMOUZEGAR PRESSED HARD ON THIS POINT AND IN THE END APPARENTLY SUCCEEDED IN CONVINCING THE SHAH THAT THIS WAS NECESSARY.

3. PRICING KEYED TO INFLATION INDEX. IN ESTABLISHING A SINGLE PRICE FOR OIL, AN INFLATIONARY INDEX SHOULD BE AGREED ON WHICH WOULD MAINTAIN PRODUCERS' PURCHASING POWER. THE SHAH RECOGNIZED THAT OPEC HAD TURNED DOWN SUCH AN INDEX IN THE NEGOTIATIONS PRIOR TO THE 1971 TEHRAN AGREEMENT BUT NOTED THAT OIL PRICES AT THAT TIME WERE TOO LOW AND THAT THE OPERATION OF AN INFLATIONARY INDEX WOULD NOT REPEAT NOT HAVE RESULTED IN THE INCREASE IN OIL PRICES WHICH THEY VIEWED AS JUSTIFIED AT THE TIME. NOW THAT PRICES ARE AT AN ACCEPTABLE LEVEL, AN INFLATIONARY INDEX IS BOTH NECESSARY AND DESIRABLE.

4. ESTABLISHMENT OF A SINGLE PRICE. THE SHAH BELIEVES THE PRICE SHOULD BE NEGOTIATED BETWEEN THE OIL COMPANIES AND PRODUCING COUNTRIES AT THE OUTSET, PROBABLY THROUGH OPEC. AFTER A SINGLE PRICE HAS BEEN AGREED ON HE LOOKS TO A CONSUMER/PRODUCER MEETING (OECD OR OTHER MECHANISM) AS THE PLACE TO NEGOTIATE AN INFLATIONARY INDEX TO WHICH OIL PRICES SHOULD BE TIED. HE ALSO REITERATED HIS OPINION THAT OIL PRICES SHOULD BE PEGGED TO THE COST OF ALTERNATE SOURCES OF ENERGY.

5. CONSUMER PRODUCER CONSULTATIONS. THE SHAH MENTIONED AGAIN HIS UNHAPPINESS THAT HIS ATTEMPTS TO GET A CONSUMER/PRODUCER DIALOGUE STARTED HAVE FAILED SO FAR. JAMIESON SAID THAT HE TOLD THE SHAH THAT PERHAPS HIS DECEMBER 23 PROPOSAL WAS SOMEWHAT PREMATURE BUT NOW THAT CONSUMING NATIONS HAVE HAD A CHANCE TO ASSESS THE EFFECTS OF OIL PRICES AND THE POSSIBLE METHODS OF HANDLING THEM, THE MOMENT IS NOW RIPER AND CONSUMERS READIER TO ENTER INTO A DIALOGUE.

6. SAUDI ARABIA AND ATTEMPTS TO CUT PRICES. THE SHAH INVEIGHED AGAINST SAUDI ARABIA AND SHEIKH YAMANI FOR THEIR DUPLICITY AND IMPLICITLY CRITICIZED THE US FOR BEING TAKEN IN BY YAMANI. HE NOTED THAT IF SAUDI ARABIA ATTEMPTED TO CUT PRICES THROUGH A LARGE SCALE AUCTION OR UNILATERALLY, IRAN AND OTHER MEMBERS OF OPEC WERE

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FIRMLY PREPARED TO TOSS SAUDI ARABIA OUT OF OPEC AND REDUCE PRODUCTION ENOUGH TO OFFSET ANY SAUDI ARABIAN ACTION. HE APPEARED TO AGREE WITH JAMIESON'S COMMENT THAT IF ARAMCO MEMBERS ACCEDED TO YAMANI'S PRESENT DEMANDS IT WOULD INCREASE OIL PRICES BY ABOUT \$1.50 A BARREL ADDING ANOTHER \$18 BILLION ANNUALLY TO THE CONSUMERS' OIL PRICE. THIS, JAMIESON NOTED, WOULD BE AN ADDITIONAL DISASTER TO THE WESTERN WORLD. THE SHAH URGED JAMIESON TO COME TO A REASONABLE ARRANGEMENT WITH SAUDI ARABIA. IF THIS WERE POSSIBLE,

THE SHAH SAID IRAN WOULD TAKE THE LEAD IN OPEC TO ESTABLISH A SINGLE PRICE AND RETURN SOME STABILITY TO THE WORLD OIL BUSINESS.

7. COMMENT: THE SHAH'S THINKING HAS EVOLVED MORE CONCRETELY OVER THE PAST WEEK SINCE HIS AUDIENCE WITH AMBASSADOR HELMS (REFTEL) ON HOW TO APPROACH THE PROBLEM OF OIL PRICES AND WORLD ECONOMIC STABILITY. THE SHAH IS STILL DETERMINED TO TIE OIL PRICES AND MAINTENANCE OF PURCHASING POWER TOGETHER IN ANY DISCUSSIONS WITH CONSUMERS THAT MIGHT EVOLVE. THE DETERMINATION NOT REPEAT NOT TO REDUCE PRICES WAS REINFORCED ONCE AGAIN BUT WITH MORE SPECIFICITY. THIS SEEMS TO INDICATE THAT IRAN IS NOW IN RATHER CLOSE CONSULTATION WITH OPEC MEMBERS OTHER THAN SAUDI ARABIA ON HOW TO COUNTERACT ANY SAUDI/US INITIATIVES TO CUT PRICES.

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